Journal of International Business and Economy (2019) **19**(2): 54-73 (20 pages)

Journal of International Business and Economy

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A NEW PERSPECTIVE ON CHINA'S OUTWARD FOREIGN DIRECT INVESTMENT: THE HYPOTHESIS OF SUPER-OWNERSHIP ADVANTAGE

ABSTRACT

This paper proposes the hypothesis of "super-ownership advantage" for China's outward foreign direct investment (OFDI). This study incorporates the mainstream FDI theories, extended theories proposed by East Asian scholars, and new institutional economics. We argue that under an uncertain environment, when firms can deal with "normal risks" and external barriers within their capabilities, OFDI based on static and dynamic advantages and country-specific advantages will be effective. On the other hand, when firms cannot overcome "abnormal risks" and barriers within their capabilities, they will pursue OFDI based on a hybrid governance mode, which includes "market" governance. These findings provide practical and meaningful implications for explaining OFDI by Chinese firms and the strategic guidelines for the synergistic interaction between business and government.

Key Words: FDI theories, Imbalance theory, New institutional economics, Abnormal risks, Super-ownership advantage

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https://doi.org/10.51240/jibe.2019.2.3

INTRODUCTION

When the Chinese government introduced its "Going Out" policy in 1999, the country's outward foreign direct investment (OFDI) entered a new developmental stage. Notably, after China's entry into the World Trade Organization (WTO) in 2001, there was a substantial increase in its OFDI which reached USD 1.98 trillion by 2018, a figure that is 66.3 times greater than the amount in 2002 (MOFCOM, 2019). The relative position of China's OFDI stock in the world also rose for the same period from twenty-fifth to third, following behind the United States and the Netherlands (MOFCOM, 2019).

The rapid growth of China's OFDI has attracted increasing attention from Chinese scholars who seek to explain such an expansion. Currently, the research on China's OFDI has mainly focused on its motivation, economic effects, locational choice, and industrial position (Hong, 2018; Yin, 2015). In this respect, these scholars have argued for "comparative advantage" (Lin, Cai, and Li, 1999), "latecomer advantage" (Guo and Hu, 2004), and "large country advantage" (Li, 2007) as ways to explain how China was able to gradually narrow the gap with developed countries in terms of economic development and OFDI. The above arguments have led to further discussion regarding internationalization among Chinese firms, such as their operational features and the choice for such a path. However, these preceding studies still do not satisfactorily explain the unique features of the OFDI among Chinese firms.

This paper aims to propose a new theoretical perspective to explain the fast-growing nature of China's OFDI over the past two decades, by conducting an in-depth analysis in light of the major findings from the preceding literature. Specifically, we seek to introduce the hypothesis on "super-ownership advantage" as a way to explain this rapid growth. The theoretical logic of this research is as follows. We combine the mainstream FDI theories from the micro perspective as well as the extended theories from East Asian scholars including Kojima's (1978) theory and Moon and Roehl's (2001) imbalance theory from the macro-micro perspective. From this we propose a new analytical framework. Moreover, this paper incorporates new institutional economics, by considering the external barriers and safeguarding strategies in the process of internationalization. This facilitates an investigation of the unique characteristics of China's OFDI within an institutional framework. Our study thus contributes to the existing literature on China's OFDI by establishing a more comprehensive hypothesis on China's OFDI practice, and discussing its different governance modes under the conditions of "normal risks" and "abnormal risks." The hypothesis proposed in this paper effectively combines the unique institutional context of China's large-country conditions, latecomer advantages, and authoritarian system. Furthermore, using the concept of "super-ownership advantage," this paper provides a systematic explanation on the complicated relationship among market risk, transaction strategy, and the government's role in China's OFDI.

This paper is organized as follows. The following section illustrates the mainstream FDI theories and new institutional economics, and proposes the hypothesis of "super-ownership advantage." It then discusses the main arguments of "super-ownership advantages," and outlines the different effects on the governance modes of a firm's OFDI under normal and abnormal risks. Based on the above theoretical discussions, this paper applies the "super-ownership advantage" hypothesis to China's OFDI and conducts an in-depth analysis. Lastly, the contributions and implications of this paper are provided.

LITERATURE REVIEW

Mainstream FDI theories

In the literature, mainstream FDI theories seek to explain how firms from developed countries have successfully invested abroad. In this respect, these theories have been mainly concerned with how investing firms respond to the entry barriers of host countries by building ownership advantages. Hymer's (1976) monopolistic advantage theory which has mainly looked at structural market imperfections, Buckley and Casson's (1976) internalization theory that has focused on transactional market imperfections, and Dunning's (1977) eclectic theory that has incorporated the location theory, internalization theory, and Hymer/Kindleberger approach [1] into one framework (also known as the OLI framework). Specifically, Hymer's monopolistic advantage theory seeks to explain how firms successfully invest abroad by exploiting particular ownership advantages when facing structural market imperfections. Buckley and Casson's internalization theory stresses that when facing transactional market imperfections, firms can better exploit their ownership advantages through internalization, and this in turn helps firms successfully invest in host countries. Dunning incorporated these preceding theories and clarified that a more

[1] Hymer's basic idea was developed and extended by his supervisor's publication in 1969 – American Business Abroad (Kindleberger, 1969). Through the lens of Kindleberger's book, Hymer's work reached a wider public and the Hymer/Kindleberger approach (or theory) was named (Buckley, 2006).

comprehensive set of advantages, such as ownership, location, and internalization advantages, determine the success or failure of OFDI among Multinational Companies (MNCs). Therefore, Dunning's eclectic theory has been the authoritative source for FDI theories by integrating a series of advantages.

Ownership advantage has become the core discussion for mainstream FDI theories, yet it has a number of limitations due to the fact they are predominately focused on the micro perspective. In this respect, they are more concerned with issues related to profit maximization among the investing firms and less on the development status and strategy of the host country's firms and the effects of investment from MNCs in the host country. Although Dunning's eclectic theory has considered the investing firm, the inter-firm relationship, and the relationship between firms and locations, his point of view is generally static and cannot explain well how firms create, sustain, and build up ownership advantages. Hence, Dunning's eclectic theory cannot help firms formulate international business strategies in a dynamic manner.[2] In fact, in an era where network-based organizations have been well developed across a global scope, a micro-perspective that is focused on ownership advantages has many limitations. The interrelationships among nations, industries, and firms can generate "super-ownership advantages," and MNCs can also develop sequential advantages after the build-up of their initial ones (Kogut, 1990). This shows that FDI theories should consider the context of institutional innovation and integrate factors at various levels. Such a systematic analysis can provide a useful basis for building a new theoretical hypothesis.

Extended theories by East Asian scholars: marginal industry expansion and the imbalance theory

The theory of marginal industry expansion (hereafter referred to as the Kojima theory) was developed in the late 1970s when Japan witnessed the fast growth of its OFDI. Kojima (1978) introduced this theory as a way to explain this trend while also seeking a different approach from conventional FDI theories. The Kojima theory incorporates comparative advantage from a macro perspective, considers changes in national welfare from a global perspective, and provides an in-depth analysis about the direction and categories of industrial investment. Hence, the theory makes it more informative and profound for

[2] Dunning (1995) has proposed a modified OLI framework and attempted to extend the internalization concept to provide some implications for the era of alliance capitalism. However, whether the governance of strategic alliance should be regarded as an internalization mode is still under discussion.

research on the investment behavior among MNCs. Despite the questions raised by some scholars (e.g., Rugman, 1980; Sun, 1998) about the concept of comparative advantage and the governance modes of OFDI, the Kojima theory has provided some meaningful contributions as follows.

First, scholars such as Rugman (1981) and Gray (1982) argued that OFDI from US firms is not against the comparative advantage, and suggested the need to consider technological changes over a certain period and comparative advantages based on a combination of mobile and immobile factors. Their suggestions seem to support the view that although mainstream FDI theories have mainly stressed the micro perspective, they can be extended by incorporating the macro side. In this respect, we can find a systematic linkage between mainstream FDI theories and the Kojima theory by integrating both macro and micro perspectives to explain the patterns of OFDI behavior among MNCs.

Second, the key idea behind the Kojima theory derives from the implications of the transfer of marginal industries. That is to say, home country firms invest abroad in its comparatively disadvantaged industries in order to shift domestic resources to its comparatively advantaged industries at home (Kojima and Ozawa, 1985). According to Kojima, when Japanese firms transfer their marginal industries from domestic to foreign countries, the focus is on the spin-off action. In the later stage, Japanese firms mostly gain profits through comparative advantage in trade transactions (Zheng, 2006). Hence, the Kojima theory is still based on mainstream FDI theories but adds another new complimentary perspective (the disadvantaged industry or segments in developed countries can be successfully transferred abroad). However, he did not answer the question of how firms from developing countries with comparative disadvantages can successfully invest abroad. For the OFDI from firms based in developing countries, it is still under debate regarding issues such as what are the ownership advantages of these firms and how they generate their ownership advantages.

Moon and Roehl (2001) first identified the importance of upward OFDI by firms from developing countries to developed countries, and introduced a new theory – the imbalance theory - to explain such flows. They incorporated Penrose's (1959) ideas that firms will experience resource imbalance in the process of building up their firm-specific assets. Moon and Roehl (1993, 2001) argued that OFDI from firms in developing countries are not only driven to exploit their current asset advantages, but also seek to gain new advantages that can complement their current ownership disadvantages. The imbalance theory extended Penrose's concept of imbalanced growth to the international dimension.

Once firms are allowed to accumulate their existing resources and capabilities across national boundaries, a new mode of OFDI (with dynamic-evolution features) emerges which is different from mainstream FDI theories.

The extended theories presented before show how two Asian scholars have made important contributions to the literature on FDI. First, firms from the leading developed country, based on the comparative advantage perspective of the Kojima theory, can still transfer their industries or segments with disadvantages to foreign markets through OFDI. This argument enriches the research of mainstream FDI theories that only consider the transfer of ownership advantages. Second, Moon and Roehl's (2001) imbalance theory which is based on the idea of Penrose (1959) complemented mainstream FDI theories in explaining the upward OFDI flow from firms in developing countries to developed countries.

New institutional economics

New institutional economics can be understood across the following two aspects. The first is the historical and economic analysis on the institutional evolution by Douglass North and other scholars. The second is the discussion on the reasons for advantages and disadvantages among the various models of economic organizations by different scholars, for example incomplete contracting theory, governance economics, and property. According to North (1990), the evolution of institutions has the feature of contingency and path dependence. Given the limited human rationality and asymmetric information, it is difficult for human beings to conceive of an optimal system. However, human beings can continuously adjust their institutional modes through trial and error, so that they can achieve a certain mode to deal with external uncertainties. Institutional evolution can thus achieve adaptive adjustment. Williamson (1999) further pointed out that when a system replaces the existing one, the new system should compensate the old system in order to provide for more benefits; otherwise the original system would always be the optimal one.

The analysis of institutional economics evolution thus has implications for our research. For the Chinese context it can be understood across the following three aspects. The first is the latecomer advantage. Due to the adoption of economic opening and market economics in the late 1970s, China as a latecomer could import and learn from the established technology and management skills, which in turn contributed to its productivity enhancement. Such an internationalization policy has substantially supported the development of China's economy. The second is the model of authoritarian politics that have been maintained since the founding of the People's Republic of China. Such a political background provides an effective governance structure in promoting modernization and integrating society. This has been reflected not only in developing export processing zones, but also in establishing public infrastructure by collecting a large amount of resources and integrating the country's strengths toward strategic areas. From the perspective of history and reality, the road of autonomy and developing state-owned enterprises have been determined by China's political culture requirements. As a latecomer, it is very difficult for private companies to compete with Fortune 500 firms. The third is that China is a unified and large country with a vast population. After the completion of the first two conditions, such a country can generate the effects of economies of scale which supports further modernization.

The above three characteristics with regards to China's institutional evolution have also had a profound impact on overseas investment by Chinese firms. They can achieve latecomer advantages by either learning from foreign MNCs based in China (inward internationalization) or by entering the international market through a connection with foreign MNCs (outward internationalization). This feature not only implies the usefulness of the resource-based view and the network theory, but also shows the close relationships between OFDI from Chinese firms and its dynamic capability (Zheng, Jiao, and Cai, 2018). Second, China's model of authoritarian politics suggests that the strong position of state-owned enterprises is the result of institutional evolution. If we consider the development stage of the latecomers' market economy, the existence and development of state-owned enterprises can not only complement market failure by providing public goods and other products related to social demands, but also effectively respond to competition based on its strong capability in integrating resources. Lastly, the united country factor shows that integration of the domestic market can provide the advantage of economies of scale, promote rapid growth of domestic enterprises, and buffer the negative impact from an uncertain external environment on the domestic economy and firms.

Governance Economics is derived from Coase (1937) and has been further developed by Williamson (1975, 1981). It holds a different perspective from the neoclassical economics developed by Adam Smith's free market theory which tends to pursue the maximization of utility for both consumers and firms across simple market exchanges. Thus, "choice" is regarded as the appropriate analytical unit for the theory of price. By contrast, Governance Economics focuses on the complicated transactions among the parties and other involved participants. This theory particularly stresses elimination of strategic hazards in transactions through incomplete contracts and governance modes for reducing transaction costs. Hence, contract is the basic tool for the analysis. For Williamson, firms and markets have evolved from two organizational forms of economic activities suggested by Coase to the two alterative governance modes. Governance Economics hence argues that there can be different governance structures for various transactions in order to reduce the transaction costs.

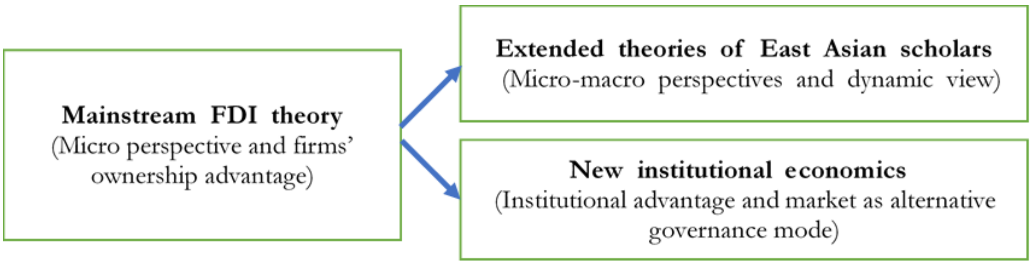
For the overseas investment activities, firms can establish a new investment (make) or acquire existing firms (buy); firms can also conduct a wholly-owned investment or a partial investment. Therefore, in the international market, the firms' OFDI is always based on the "make or buy" decision, which constitutes an important part of research for Governance Economics. However, Governance Economics can provide further implications for the hypothesis of "super-ownership advantages." For Chinese firms investing abroad, it is important how they utilize appropriate governance structures to match various transactions that are closely related to corporate ownership advantages. If the Chinese firms' OFDI faces strong barriers from rival firms or host countries and cannot respond within their capability, can they utilize market governance to deal with it? Obviously, this research question is beyond the scope of traditional ownership advantages, and requires the integration of various resources and governance strategies, including government policies at the macro level and market system at the medium level.

The above review and discussion on traditional FDI theories, the extended theories of two East Asian scholars, and new institutional economics provide the foundation for the hypothesis of "super-ownership advantages," which will be discussed below in more detail. The hypothesis incorporates the core concept of firms' ownership advantage from the mainstream FDI theories and also introduces a dynamic-perspective analysis by integrating macro and micro aspects from the extended theories of two East Asian scholars to complement the limitations of traditional FDI theory that has mainly stressed the micro and static views. On the other hand, we apply the new institutional economics, especially the logic of Williamson to investigate the context under which Chinese OFDI activities match with their governance structures (See Table 1 and Figure 1).

Table 1. Different theoretical perspectives on OFDI

Theory	Content and Perspectives
Mainstream FDI theory	- Micro perspective and firms' ownership advantages - Static view
Kojima Theory	- Macro perspective and comparative advantages -Static view
Imbalance Theory	- Micro perspective and imbalance in the firms' asset-portfolio - Dynamic view
New Institutional Economics	- Macro perspective and institutional advantages - Static view
Hypothesis of "Super-ownership advantages"	- Macro-micro perspective and institutional advantages - Dynamic and integrated view

Figure 1. The foundational theories of "super-ownership advantage" hypothesis



THE MAIN ARGUMENTS ON THE HYPOTHSIS OF "SUPER-OWNERSHIP ADVANTAGE"

Before discussing the hypothesis of "super-ownership advantage," we will first define its concept across the following three aspects. First, "super-ownership" refers to the difference in the ownership structure. It is not only manifested in the difference between state-owned and private enterprises, but also the difference between equity and non-equity, wholly-owned subsidiaries and joint ventures when firms invest abroad. Such differences not only provide the opportunity for cooperation between firms with different ownership structure, but also provide alternative strategies for dealing with complicated transactions. Second, "super-ownership" refers to the differences in the nature of ownership related to the safeguarding mechanism. Specifically, in addition to firms (including government), there are various governance modes of economic activities, such as social organizations and markets. These modes can be classified as what Williamson labelled as hybrid or market-based governance modes. There is substitutive or complementary relationships among various governance modes, and different governance modes can be matched with different transaction activities. Finally, "super-ownership" includes the difference in locational and institutional advantages (Dunning, 2006). Since ownership advantages and locational advantages can often be mixed with each other (Hennart, 2009; Verbeke, 2009), a certain type of firm-specific advantage can be moved outside and exploited by combining with other locational advantages.

Super-ownership thus helps Chinese firms overcome the barriers within or outside their capabilities, by utilizing or combining various governance modes in a dynamic manner. Such a process leads to "super-ownership advantage." Specifically, we can study the relevant advantages from the following three aspects of when Chinese firms engage in OFDI activities. The first is to address the different ownership structure, and we can explore the complex combination of ownership (we define it as hybrid governance mode) between Chinese state-owned firms, private firms, and other partners including foreign firms. The second is related to the differences in ownership nature, and we can study the substitutive or complementary relationships of market and other governance modes with firms while they engage in overseas investment, especially when they face the abnormal risks from market failure (we define it as market substitutive governance). The last aspect stresses the difference in the locational and institutional advantages. We can explore the impact of country (home and host country) and locational institutions/culture on China's OFDI (we define it as hierarchy influence or the embedded effects). The above-mentioned "super-ownership advantage" is also useful for firms to overcome "normal risks" and "abnormal risks" when investing abroad.

OFDI under "normal risks": combinative mechanism of factor endowment

By adopting the core arguments from the mainstream FDI theory and the extended theories provided by East Asian scholars, the hypothesis of "super-ownership advantage" holds that there are differences in macroeconomic factors (natural and social) and differences in the created factors among firms. Under the condition of "normal risks," firms with strategic vision can combine the macroeconomic factors and their own created factors, thereby enhancing their ownership advantages (static ownership advantages). They can also combine macroeconomic factors from various countries through the internalization mode among firms, and therefore further enhance their ownership advantages (dynamic ownership advantage). However, it is not enough to simply satisfy the above requirements, because ownership advantage is a temporary concept. If a country has a comparative advantage in entrepreneurship, it can continuously upgrade its firm-specific advantages through innovation. In this respect, we should be more concerned with the country-specific advantages that influence the entrepreneurship among local companies, such as institutions and culture. Hence, a country's institutional innovation at the macro level has been put forward on the research agenda (See Table 2).

Table 2. The application of "super-ownership advantage" under "normal risks"

Investment type	Core competence	Model feature
OFDI with static ownership advantage	The combination of domestic macroeconomic factors and firms' creative factors	Static perspective
OFDI with dynamic ownership advantage	The combination of domestic/foreign macroeconomic factors and firms' creative factors	Dynamic perspective, internalization mechanism
OFDI with country-specific advantage	Comparative advantage in entrepreneurship	Dynamic embedded perspective

OFDI under "abnormal risks": Flexible utilization of governance structure

In general, when the business environment changes and becomes uncertain, the firm should adjust its governance mode in order to adapt to such transformations. As such, firms and their employees should bear the corresponding transactions costs. However, in some cases, if the transformation in external environmental increases the firms' transaction costs substantially, they will not be able to afford it and may even have to give up the transaction. We refer to such a phenomenon as firm failure under "abnormal risk" and is related to the concept of market failure.

According to Coase Theorem I, there are two ways of solving market failure. One is the government's intervention as a night-watchman, and the second is to make up by creating a series of markets such as the supplementary role of the futures market for the spot market. Obviously, the government plays an important role during a time of uncertainty. The government can passively intervene when the market fails, and help firms reduce the internal transaction costs by improving the market mechanism. The government may also play an active role in providing innovative market systems to avoid "abnormal risk" and the loss of firm-specific advantages. The state activities in this case may include building new market platforms, improving infrastructure, providing compensation to the first-movers over losses brought on by the spillover of information and technology, and actively coordinating various parties, thereby strengthening the entrepreneurship of local companies and upgrading local firms' ownership advantage.

The hypothesis of "super-ownership advantage" argues that when facing market failure under uncertain conditions, government intervention can not only complement market failure, but also improve market structure by creating new ones or integrating the scattered market. For example, in the situation of firm failure with "abnormal risks," the "market" governance mode (or other mixed modes) could be applied as the substitute to the "firm" governance structure. This is because "super-ownership advantage" incorporates the view of governance economics that firms and markets are the alternative to governance modes. As different governance modes can be matched with different transaction activities, we should look beyond the conventional role of the government toward China's OFDI in the context of "abnormal risk." Rather, the role of the government should be raised to a higher level which is more effective, systematic, and strategic in terms of matching governance modes with the types of transactions (see Table 3).

Table 3. "Super-ownership advantage" hypothesis under the "abnormal risk"

Failure risk	Government role	Specific measures
Market failure	Government's direct intervention. Create the complementary market.	Antitrust, regulation and state-owned property; open competition.
Firm failure with abnormal risk	Government's indirect intervention. Improve the substitutive governance structure.	National bidding; create a domestic market platform.
Market and firm failure	Government's active intervention. State capitalism.	Develop state-owned monopoly enterprises.

RESEARCH PARADIGMS OF THE HYPOTHESIS OF "SUPER-OWNERSHIP ADVANTAGE" AND ITS APPLICATIONS

Considering the various risks encountered by Chinese firms when engaging in OFDI activities, we can identify two applications for the "super-ownership advantage" hypothesis (see Table 4). First, within the firm boundary, firms can effectively overcome the barriers from external risks (or normal risks). Such OFDI activities are manifested as static or dynamic ownership advantages, and strategic behavior based on various country-specific advantages. Second, within the capability boundary, firms cannot effectively overcome the obstacles from abnormal risks. Such OFDI activities are manifested by many strategic behaviors outside the firm boundary, such as the "market" governance structure or other hybrid modes.

Table 4. Two paradigms of the "super-ownership advantage" hypothesis

The uncertain condition of OFDI	Firms' capability boundaries	Transaction costs	OFDI modes under the two paradigms
Paradigm1: Normal risks and barriers	Within firms' capability boundaries.	Effectively overcome	OFDI with static ownership advantage. OFDI with dynamic ownership advantage. OFDI with country-specific advantage.
Paradigm2: Abnormal risks and barriers	Beyond firms' capability boundaries.	Impossible to overcome.	OFDI with strategic alternative approaches.

Analysis of Chinese firms' OFDI strategy under paradigm 1

According to mainstream FDI theories, there are four key motivations: resource-seeking, market-seeking, efficiency-seeking investments, and strategic asset-seeking (Dunning, 2000). Resource-seeking OFDI has been a popular motivation for Chinese firms for more than a decade. As a result of the transfer of factories from around the world to China, there has been a large demand for raw materials in China. Consequently, its share of global consumption of aluminum, copper, nickel, and iron ore rose from 7 percent in 1990 to 20 percent in 2004. Over the past few decades, major cross-border mergers and acquisitions by Chinese firms have also been concentrated in these areas. They have sought to secure natural resources such as crude oil, natural gas, coal, metal ore and non-metallic minerals that have mainly been concentrated in developing countries (Africa, Central and South America, and Asia) and some developed countries (Australia and Canada). Therefore, firms' ownership advantages in resourcing-seeking FDI depends on how Chinese firms find and combine the location advantages with their corresponding advantages.

Market-seeking OFDI occurs when firms transfer their production facilities through horizontal integration. For the manufacturing industry, when host countries have higher trade barriers, the adoption of market-oriented OFDI will be more effective. For the service industry, the local presence of a firm is critical for their global expansion. Hence, as soon as the host country's market opens toward foreign investors, industries such as banking, telecommunications, and public utilities will witnesses high market growth. For Chinese firms, market-seeking OFDI increases for the following reasons. First, thanks to inward FDI, Chinese firms are able to learn about foreign technologies and skills. This then helps them to develop some competitive industries with scale or technology advantages. As a result, Chinese OFDI activities are further promoted, such as China's equipment manufacturing industry with scale advantages, and white goods industry with skill advantages. Second, when Chinese firms achieve the above-mentioned advantages, they usually obtain competitiveness in developing one product or have relatively competitive production systems but often lack the competitiveness in the sales system. Hence, if firms would like to improve their competitiveness in production or sales system, it is very likely for them to achieve their strategic goals through international merger and acquisitions (M&A), for example Lenovo and IBM, Geely and Volve, Wanxiang Group and US firms. This thus helps firms gain the integrated ownership advantages.

Efficiency-seeking OFDI is mainly achieved through the vertical division of production structure and appropriate locational distribution. Such OFDI activities involve the outsourcing of production processes (for lower labor costs), the allocation of strategic units (the transfer of R&D and marketing centers), and cross-border network structures (production platforms, regional networks and global networks). This arrangement is in line with the feature of global value chains which can take advantage more effectively of the core competences among MNCs. For Chinese firms, this type of OFDI is reflected as the transfer and re-investment of traditional manufacturing firms in developing countries (OFDI with comparative advantages).

Strategic asset-seeking OFDI refers to overseas investments for learning more on emerging technologies. Examples include the way in which Chinese firms have acquired firms from advanced countries through M&As, established or cooperated with new R&D centers, and appointed local high-quality talent. Hence, Chinese firms directly or indirectly control and own advanced technology, such as the joint acquisition of Rover in the UK by Nanjing Automobile and Shanghai Artmobile, the acquisition of Tomson in France by TCL, and the disposition of Huawei's overseas R&D institutions.

Based on the type of FDI motivations, Chinese firms' super-ownership advantage and governance mode can be summarized as Table 5.

Table 5. The super-ownership advantage and governance mode by the type of FDI motivations

Type of FDI motivations	Super-ownership advantage	Governance mode
Resource-seeking OFDI	- Dynamic ownership advantage	- Authoritarian governance (New establishment) - Hybrid governance (Alliance or joint venture)
Market-seeking OFDI	- Static ownership advantage - Dynamic ownership advantage - Country-specific advantage	- Authoritarian governance (New establishment/M&A) - Hybrid governance
Efficiency-seeking OFDI	- Static ownership advantage	- Authoritarian governance (New establishment/M&A) - Hybrid governance (Outsourcing/joint venture)
Strategic asset-seeking OFDI	- Dynamic ownership advantage - Country-specific advantage	- Authoritarian governance (New establishment/M&A) - Hybrid governance (Alliance)

Analysis of Chinese firms' OFDI strategy under the paradigm 2

Based on the hypothesis of "super-ownership advantage," we assume that Chinese firms can use various governance modes to overcome risks within their capabilities as they carry out OFDI activities. However, when Chinese firms invest abroad, they often face the obstacle of monopolistic practices among local firms or intervention by governments. This results in "abnormal risks" which are beyond the firms' capabilities. Hence, the "super-ownership advantage" hypothesis provides the alternative strategy for Chinese firms to overcome barriers and risks. By adopting a hybrid governance beyond the firm's boundaries or creating a strong domestic market platform as well as the active role of the Chinese government's policies, these firms can effectively improve their disadvantageous position.

This will lead to the important role of the government, through policy design and establishing and promoting the formation of the domestic market which has international influences. Take the deregulation of mineral resources as an example. When the government liberalizes this sector, it must be clear that public resources in such an area are owned by the state. That is to say, the mineral resources should be owned by the state, but the operation is market-oriented. The managerial operations can be opened to all global enterprises that produce, process, and store such resources. Hence, the local market with global influences can be built up by using the capability of the government. In this case, China can further obtain and maintain the right of setting the price.

The above-mentioned strategy of integrating the domestic market is very important and provides meaningful implications as follows. First, the Chinese market does not only mean the right to tax, the location of the market also has jurisdiction. This is very convenient for dealing with price alliances of existing market monopoly in the sectors such as iron ore, by implementing anti-trust policy in the local market, thereby creating a favorable environment for Chinese firms' overseas investment. WTO agreements have reduced international trade barriers to the minimum level, but these agreements cannot interfere a country's domestic economy. China can thus avoid the limitation of these WTO agreements by establishing a domestic market which is, still globally oriented. The Chinese government puts the policy focus on the domestic level and lays a solid foundation in the home market. China can effectively utilize the advantages of the domestic market and institutions to participate in global competition. This is also what this article has suggested that when Chinese firms are faced with "abnormal risk" beyond their capabilities, the adoption of "super-ownership advantage" hypothesis will be effective. We can use the domestic "market" governance structure to replace and support the "firm" governance when engaging in OFDI activities to achieve competitive advantages. In many market segments, China has occupied a significant position in the world. The integration of the domestic market in China, such as the purchase of iron ore and the supply of rare earth metals as well as imports of oil and many commodities, has helped it obtain a strategic position through these initiatives.

Currently, China's strategic measures such as encouraging the accumulation of rare earth metals and establishing a futures market for iron ore can be regarded as the application of the "super-ownership advantage" hypothesis. Once Chinese firms face external barriers due to these monopolistic actions or direct intervention by governments when engaging in overseas investment, we can use the domestic "market" governance to replace the "firm" governance, thereby helping Chinese firms obtain firm-specific advantages.

CONCLUSION AND IMPLICATIONS

This article incorporates the important concepts advocated by mainstream FDI theories as well as extended theories proposed by two East Asian scholars. From this it develops a new approach by integrating macro-micro aspects and dynamic advantages toward understanding the features of Chinese OFDI. This article also adopts new institutional economics, governance economics in particular, and incorporates various governance modes of "firm" and "market" into the research on China's OFDI practices. This holistic approach not only effectively explains the general patterns and features of Chinese overseas investments (the static and dynamic ownership advantages under "normal risks"), but also provides a more relevant explanation for the unique national conditions and institutional background ("abnormal risks" from the institutional barriers and price-setting barriers) for China's OFDI activities.

This research found that for OFDI from large countries like China, the relationship among government, firms, and the market should be re-established based on efficient, strategic and systematic aspects. Under an uncertain situation, if firms can cope with various "normal risks" and obstacles within the firms' capabilities, then it will be effective for firms to invest abroad based on the static and dynamic ownership advantages, and country-specific advantages, according to the hypothesis of the "super-ownership advantage." If firms cannot overcome the "abnormal risks" and obstacles within its capabilities, it will be more effective for the OFDI to use the alternative strategies such as "markets" governance. However, in both situations, the government acts beyond the traditional role of the "market watchman." The government needs to play an active role as a "strategic builder" in some occasions, and promote the "market" governance through building institutions, thereby facilitating domestic firms to grow and participate more effectively in international competition.

Such findings could be considered as a similar approach to the strategic trade policy advocated by Krugman, but there is a significant difference between the two approaches. Krugman's (1986) strategic trade policy originates from old structural economics, and advocates that the government directly intervenes and supports firms by using export subsidies, tariffs and other measures. Furthermore, the strategic focus is to protect domestic manufacturers in order to defeat their opponents, thereby leading to the opposing country's unfavorable reaction or retaliation. However, the "super-ownership advantage" hypothesis emphasizes that when there are "normal risks" that can be overcome, it advocates firms to participate in OFDI based on the integrated advantages of macro-micro aspects and dynamic advantages. When there are "abnormal risks" which are difficult for firms to overcome, it emphasizes the role of the domestic market in replacing and supporting the firm's governance. In such a situation, even if the government intervenes, it does not exclude the core position of market governance. Therefore, with regards to the "super-ownership advantage" hypothesis, the market has played a positive role of substituting or complimenting firms, and the government has shifted from a simple "market watchman" to a higher-level role of "strategic builder." In this respect, the "super-ownership advantage" hypothesis provides a new perspective on the relationship between firms, markets, and governments when Chinese firms engage in OFDI activities.

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